IOWA UTILITIES BOARD
Energy Section

Docket No.:	RPU-2012-0002 (TF-2012-0374)
Utility:	Interstate Power and Light Company
File Date/Due Date:	5/25/12-3/20/13
Memo Date:	9/14/12

TO: The Board

FROM: Robert LaRocca, Barb Oswalt and Cecil Wright

SUBJECT: Review of Settlement Tariff Changes

I. Background

On May 25, 2012, Interstate Power and Light Company (IPL) filed with the Utilities Board (Board) proposed gas tariffs identified as TF-2012-0374 and TF-2012-0375 pursuant to Iowa Code chapter 476 (2011). In TF-2012-0374, IPL proposed to increase its Iowa gas rates to produce a permanent annual jurisdictional revenue increase of approximately $14,785,156, or an overall annual revenue increase of 5.6 percent. In TF-2012-0375, IPL filed proposed gas tariffs designed to produce annual revenue of approximately $8,612,094 on a temporary basis. The temporary gas tariffs became effective June 4, 2014, pursuant to Iowa Code § 476.6(10). IPL also filed prepared testimony, exhibits, and information required by 199 IAC chapter 26 in support of its general rate application. The general rate increase application was docketed as Docket No. RPU-2012-0002.

On June 13, 2012, the Consumer Advocate Division of the Department of Justice (Consumer Advocate) filed an objection to the rate application and a request that the application be docketed. Consumer Advocate stated that the application is voluminous and complex and will require a thorough investigation.

On June 22, 2012, the Board issued an order in Docket No. RPU-2012-0002 in which it suspended the proposed tariffs in TF-2012-0374, established a procedural schedule, and scheduled a hearing to consider the general rate increase request. The procedural schedule established a date for petitions to intervene of July 17, 2012. On July 16, 2012, Archer Daniels Midland Company and Equistar Chemicals, L.P. (Iowa Consumers Group) filed a petition to intervene. Attorneys for the Iowa Consumers Group also filed a request to appear before the Board pro hac vice.

On July 30, 2012, the Board issued an order granting Iowa Consumers Group intervention, granting the requests to appear pro hac vice, and requesting additional information from IPL. On August 15, 2012, IPL filed the additional information requested by the Board. On August 16, 2012, IPL, Consumer Advocate, and Iowa Consumers Group filed a Settlement Agreement that purports to resolve all of the outstanding issues regarding the general rate application. The parties to the Settlement Agreement request that the Board approve the Settlement Agreement in its entirety and cancel the procedural schedule, including the hearing, or schedule an earlier hearing to address any questions the Board may have.

In Article X "Allocation of Revenue Requirement" of the Settlement, the parties agree that the Board should approve the proposed tariff provision language changes to IPL's Pipeline Corridor Transportation Service and Transport of Customer-Owned Gas tariffs and IPL's changes to the interruptible provisions of the General Service and Large General Service tariffs as purposed in IPL's initial filing. The parties also agree that the Board should approve IPL's updates to the Gas Service Agreement and the Gas Transportation Agreement.

Staff has reviewed the tariff changes referenced in Article X of the Settlement and has some reservations about the reasonableness of some of the tariff provisions. Staff does not know at this time whether the reservations and concerns rise to the level to recommend rejecting the Settlement. To obtain additional information about the proposed tariff changes agreed to in the Settlement, staff is recommending the Board issue an order that requests additional information from the parties as set out below.

II. Description of Tariff Provisions and Questions from Staff

Pipeline Corridor Transportation Service Eligibility, Tariff Sheet No. 60

Currently, customers eligible for Pipeline Corridor Transportation Service: 1) are less than two miles from an interstate pipeline; and 2) have a minimum throughput of 250,000 dekatherms annually. IPL proposes to change the minimum throughput requirement to 500,000 dekatherms annually and 2,000 dekatherms daily.[1] IPL explains this change more accurately reflects the four customers currently served under the tariff, and ensures that these load characteristics will be maintained if there is a future influx of industrial customers switching from coal to natural gas.

B. Transportation of Customer-Owned Gas, Tariff Sheet Nos. 48-56

IPL is making the following proposed changes to its standard transportation tariff:

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[1] IPL currently allows exceptions to the less-than-two-mile distance requirement based on additional annual throughput volumes. IPL proposes to change the exception criteria to include additional daily as well as additional annual throughput volumes.

1) Adding language to clarify how the transportation tariff relates to the General Service and Large General Service tariffs.[2]

2) Deleting Section III Backup Supply Service and Section IV Pipeline Firm Transportation, since customers secure these services directly with other parties rather than through IPL. IPL is also deleting Section V System Supplied Gas, since these provisions are currently being addressed through the balancing provisions of the tariff; and is deleting reference to the Purchased Gas Adjustment (PGA) clause, which is not applicable to customer-owned gas.

3) Making changes in the monthly balancing provisions for customers that transport gas on the Northern Natural Gas Pipeline or the Northern Border Pipeline into Mason City. For these customers, imputed net purchases or sales of gas due to scheduling imbalances will be based on the Gas Daily Index Price for NNG Ventura rather than the Chicago City-Gate GDD. In addition, any of these customers with imputed net purchases (i.e., where customer demand exceeds the scheduled deliveries of customer-owned gas) will pay an additional $0.12 per therm to discourage net purchases for arbitrage purposes (since gas received at NNG Ventura can be delivered to Chicago).[3]

4) Adding two new ways for transportation customers to be released from their PGA-based Pipeline Demand/Reservation Charges, which are based on the pipeline capacity formerly reserved by IPL on their behalf.[4] The first new way is for IPL to transfer the pipeline capacity to the customer, for the customer's direct use with the pipeline. The second is for IPL to assess the customer for any remaining obligation that IPL has to the pipeline.

Staff believes the changes proposed to the Pipeline Corridor tariff and the Transportation tariff appear reasonable.

C. Gas Service/Transportation Agreements, Tariff Sheet Nos. 264-284.

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[2] For example, clarifying that the customer charges and non-gas volumetric rates shall continue to be based on the applicable General Service or Large General Service rate schedule.

[3] That is, $0.12 more than the current $0.08 per-therm charge ($0.20 per-therm total). For imputed net sales (i.e., where scheduled deliveries of customer-owned gas exceed customer demand), these customers will pay $0.04 less than the current $0.08 per-therm charge.

[4] Currently, transportation customers are released from these charges when either: a) IPL can adjust its contract capacity with the pipeline; or b) the customer has been receiving transportation service for at least one year.

IPL states that it is making changes to update its gas service and transportation agreements. IPL explains that the agreements have been restructured and re-written to flow in a more logical manner, with number sections and section headings for easier reference. IPL has made the following specific changes to the agreements.

1) A new recitals section has been inserted in the first page of each agreement.

2) The references to facility extensions have been deleted, since these are addressed separately in IPL's facilities extension agreements.

3) In the gas service agreement, a new Exhibit B has been added that addresses interruptible service terms and conditions and a new telemetering data agreement, Exhibit C, has been added.

4) In the transportation agreement, Exhibit B on daily nominations has been replaced with a telemetering data agreement, and a new Exhibit C on transportation risks has been added.

5) Alternative versions of the gas service and transportation agreements have been added which have additional "take-or-pay" provisions.

The Gas Service Agreement, Section 14.06-Tariff Sheets 264-274, appears to be reasonable for the most part and accomplishes the goals of having a standard agreement for provision of gas service. Staff does have one question about the language in the last sentence of paragraph 11 Tariff Sheet 267 which reads as follows:

> "Nothing herein contained shall be construed as relieving the Company from any liability to its own employees while upon the Site of the Customer in the performance of their duty and by the direction of the Company, or as relieving the Company from any liability to the Customer due to the producer's act of negligence."

Staff is not sure of the meaning or reference to "producer's act of negligence." There does not appear to be another reference to "producer" in the agreement. Staff needs additional information concerning the meaning of this term in this context.

Staff also has questions about the Gas Service Agreement-With Take or Pay, Section 14.07-Tariff Sheets No. 275-284. It appears there are only two differences between the Gas Service Agreement in Section 14.06 and the Gas Service Agreement-With Take or Pay in Section 14.07. One difference is the Gas Service Agreement is for a term of one year and the Gas Service Agreement-With Take or Pay is for a term of three years. The other difference is the addition of the following provision to the Gas Service Agreement-With Take or Pay:

> Section 4.c In the event facilities are extended by the Company to provide service, after the second full year of service, the Customer's billings for the second year of service will be reviewed to determine base revenue (total rate schedule charges, less charges applicable to energy efficiency programs and cost of gas supply). If Customer was billed less than the minimum annual base revenue (facility investment divided by three), required to support the $____ of facility extension (total facility extension investment less any initial advance or contribution), Customer will be assessed an advance or contribution, supplemental to any previous advance or contribution, to reduce the investment in the facility extension to the level supported by Customer's second-year base revenue. Notwithstanding the foregoing, in the event Company and Customer enter into a take or pay or contribution in aid of construction agreement for the extension of any facilities, the provisions of any such take or pay or contribution in aid of construction agreement shall be controlling in the event of a conflict with this Agreement.

Staff needs additional information about the purpose of a separate Gas Service Agreement-With Take or Pay, an explanation of subparagraph 4.c, and why the term of this agreement is three years. In addition, staff has questions concerning compliance of the provisions in subparagraph 4.c with the Board's extension rules at 199 IAC 19.3(10).

The Board's extension rules (199 IAC 19.3(10)"c"(1)) provide that extensions of distribution main extensions are to be paid for by an advance for construction with refunds, if the estimated construction cost exceeds three times the estimated base revenue calculated on the basis of similarly situated customers. Service line extensions are to be paid for by a contribution in aid of construction, without refunds, if the extension exceeds the 50 feet or 100 feet on private property, depending on the type of pipe installed.

The provisions in subparagraph 4.c appear to allow IPL to recalculate either the advance for construction or contribution in aid of construction after the first year of service to the customer. There is no provision for this recalculation in the Board's rule. Staff needs an explanation of the purpose of the provision, how it is applied, and whether the provision is consistent with the Board's extension rules. Staff also finds the reference in the last sentence in subparagraph 4.c to be somewhat ambiguous since the subparagraph is part of the Gas Service Agreement-With Take or Pay and the last sentence provides that some separate take or pay agreement would take precedence over the agreement provided for in IPL's tariff. Staff has a similar question with regard to the reference to a contribution in aid of construction agreement in the last sentence. These references appear to address the situation where IPL has contracted with the customer under an agreement different than the agreement set out in Section 14.07. Staff needs additional information concerning these separate agreements.

D. Interruptible Service Requirements, Tariff Sheet Nos. 41-46

IPL currently requires all new interruptible customers to install telemetering that allows IPL to verify compliance when IPL calls for service interruptions. Legacy customers (those that were interruptible prior to August 22, 2003) are currently exempt from this requirement. IPL proposes to remove the exception and require all interruptible customers to have telemetering. Those affected will be given a reasonable amount of time to comply, and will pay for the new telemetering through IPL's proposed Excess Facilities charges.[5] IPL states that the excess facilities provision provides customers an option when they request the installation of facilities beyond those afforded by IPL’s standard tariff offering.

E. Excess Facilities Charges, Tariff Sheet Nos. 40, 41, 43 and 47

IPL proposes to add Excess Facilities Charges similar to the Excess Facilities Charges in its electric tariff; that is, monthly charges equal to 1.6 percent of IPL’s investment cost for any facilities that are in excess of those required for standard service. IPL states that the Excess Facilities provision provides customers an option when they request the installation of facilities beyond those afforded by IPL’s standard tariff offering.

Staff believes the proposed changes relating to the Interruptible Service Requirements and the Excess Facilities Charge require further scrutiny.

IPL does not have a separate interruptible customer class—interruptible service is offered through its General Service and Large General Service tariffs. Under those tariffs customers choose either firm or interruptible service. At one time, interruptible customers paid lower distribution rates on the utility system and lower gas costs through the PGA. Currently, IPL's interruptible customers pay the same distribution rate as firm service customers. This is because IPL no longer has constraints on its distribution system that require calls for interruption—in effect, IPL interruptible customers receive firm service on IPL’s distribution system. Now the financial benefit of being an interruptible customer comes from lower gas costs through the PGA only. Interruptible customers do not pay interstate pipeline demand charges in their PGAs and interruptions would

[5] IPL proposes to add Excess Facilities charges similar to the Excess Facilities charges in its electric tariff; that is, monthly charges equal to 1.6% of IPL's investment for any facilities that are in excess of those required for standard service.

likely only be called if there were capacity or supply constraints on the interstate pipeline system.

The following information provides some background on the number of interruptible customers and IPL's recent history of interrupting them. The information comes from IPL's most recent annual reports (IG-1) filed with the Board.

Year	# of Interruptible Customers	# of Interruptions	# of Customers Interrupted
2008	230	0	0
2009	228	0	0
2010	221	0	0
2011	203	1	1

It appears that the number of interruptible customers on IPL's system has been declining rather than growing; and there has been only one interruption affecting one (small) interruptible customer during that four-year period. Given how few interruptible customers IPL has, the rare incidence of interruption and the appearance that natural gas supplies will be abundant for the foreseeable future, staff believes IPL might be able to address its operational needs to monitor interruptions by some other means without the use and additional expense of telemetry. In fact, IPL managed curtailment of distribution system interruptible customers for many years prior to the availability of telemetry—during periods when interruptible customers were interrupted more frequently.

IPL's current tariff requires "new" interruptible customers to install telemetry equipment at the customer’s expense. This requirement was added to IPL's tariff in Docket No. RPU-2002-0007, effective August 22, 2003. It is unclear whether IPL has acquired new interruptible customers since that time and if so how many, and what they might have paid for telemetering.

IPL proposes adding the following language to its Residential, General Service, and Large General Service tariffs:

> Any standard facilities required to provide non-standard service, in excess of that permitted under this Schedule or the Company's General Rules and Regulations, shall be provided at a monthly amount equal to 1.6% of the Company's investment in such facilities.

Historically, natural gas <u>transportation</u> service has required *daily* balancing and therefore those customers were required to install telemetering equipment at their own expense in order to take service under a transportation tariff. The language addressing this issue in the transportation tariff is different from the language proposed for system customers because it specifically references telemetry equipment as shown below:

> The Customer shall be responsible for all costs associated with any specific plant such as telemetering required in providing contract carriage service[6] to the Customer. The additional charge is 1.6% per month of the Company's additional investment.

The proposed Excess Facilities language appears to be intentionally generic (more generic than the language in the transportation tariff), since it is also proposed to be included in the Residential tariff which does not include an option for interruptible service. This raises the question of what other plant costs customers might be required to install and pay for through this provision.

Further, it appears that once the additional plant has been installed, the customer would pay the monthly Excess Facilities Charges indefinitely, although this is not clear from the testimony. The testimony suggests that the Excess Facilities Charge mechanism is a financing option available to customers when the customer requests installation of additional plant, but the proposed tariff language appears prescriptive rather than optional.

The proposed language on Excess Facilities is essentially the same Excess Facilities language used in IPL's electric tariff for all customer classes. It appears that this language was added to IES Utilities Inc.'s electric tariff in Docket RPU-94-2 with no mention in the Final Decision and Order issued May 12, 1995, which suggests it was not a contested issue in the case. The provision was then extended into the consolidated electric tariff for Interstate Power and Light Company in Docket No. RPU-04-1 and, again, did not appear to be a contested issue in the case.

Based on the above, staff recommends requiring IPL to provide the following additional information to assist the Board in determining the reasonableness of the proposed tariff changes pertaining to interruptible service and the Excess Facilities Charge as proposed by IPL in this docket and agreed to in the Settlement.

Interruptible Service:

1. Provide the following information separately for the General Service class and the Large General Service class, for each of the years 2003-2012:

    a) The number of interruptible service customers at the beginning of the year;

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[6] Contract carriage service is another term used for transportation service in IPL's tariff.

b) The number of interruptible customers with telemetry equipment at the beginning of the year;

c) The number of customers that initiated interruptible service;

d) The number of customers initiating interruptible service that were required to install telemetry equipment;

e) The number of customers that terminated interruptible service; and

f) The number of service interruptions called by IPL during the year including, for each interruption, the date, duration, and number of customers interrupted.

2. For each interruptible customer with telemetry equipment, provide:

   a) The date the customer initiated interruptible service;

   b) The installed cost of the telemetry equipment;

   c) What payment options the customer was given to pay for the telemetry equipment, and

   d) The total amount collected from the customer, to date, for the telemetry equipment.

3. Provide the current estimated cost of telemetry equipment.

Excess Facilities Charge:

4. Provide a description or explanation of the terms “standard facilities” and “non-standard service” in the Excess Facilities Charge tariff provision as applied to Residential, General Service and Large General Service customers.

5. Is the proposed Excess Facilities Charge an optional or mandatory method of customer payment for excess facilities required to provide non-standard service? Can the customer instead opt to pay the full cost of the excess facilities up-front?

6. If telemetry equipment is installed for an interruptible customer and those costs are recovered via the Excess Facilities Charge, will that charge be recovered indefinitely?

7. Explain the basis and rationale for the 1.6% factor used in calculating the monthly Excess Facilities Charge.

8. Describe the circumstances when the Excess Facilities Charge would be applicable to residential customers.

IV. Recommendation

Review and issue the attached order that directs the parties to the Settlement to provide responses to the questions in the order.